MORTGAGE News Daily

Thinking Refi? Read this First !

By: Ted Rood | Fri, Aug 14 2020, 9:27 PM

With rates near all-time lows, millions of homeowners are frantically refinancing. Borrowers often think the only pertinent question is "**how much can I drop my rate?**", when there's other as (or more) important factors involved. Let's look at some of those, and make more informed decisions on refinancing:

- **What will it cost?**
  Refinance expenses vary widely by state. Florida and New York have hefty state taxes and title fees. Attorneys are required in some states, but not others. A refinance that costs $2,000-$3,000 in low cost states could be $8,000-$10,000 elsewhere. Refinancing in the 5 boroughs? Don't forget to account for your mansion tax!
- **Can I get a lender credit to cover any closing costs?**
  Mortgages have interest rates in .125% intervals. Actual loan pricing doesn't break down so neatly. A 3% loan might net a credit from your lender to help offset closing costs, when a 2.875% rate loan doesn't. Ask your loan officer what your options are for lender credits.
- **The lowest rate doesn't always equal the best loan.**
  Sure, a 2.5% rate sounds sexy, and will impress your buddies who just refinanced at 2.875%, but if obtaining that rate cost you substantial discount points, was it still a good deal? Be sure to look at the monthly savings for buying your rate down versus the cost. If you'll break even in a few years (and plan to stay in the house), it may be worth it. If it will take you 8 years to recoup your initial costs, think hard. After all, paying discount costs to buy your rate down is essentially betting rates won't drop in the future. As we're seeing now, that's often a losing proposition. Someone who paid significant costs to buy their rate down from 4% to 3.5% in 2018 didn't get much bang for their buck, with average "top tier" rates now under 3%.
- **How much do you owe?**
  It's far tougher to benefit when refinancing a $50,000 loan compared with a $500,000 one. In many cases, the costs associated with a refinance only vary slightly with loan size. Investing $3,000 to drop your rate .5% on a $500,000 loan is a no-brainer. Spending the same $3,000 to cut your rate .5% on a $50,000 loan will seldom, if ever, be a sound fiscal decision.
- **How many ways can you benefit?**
  Sure it's great to lower your rate, but let's look for additional benefits in your refi. Can you eliminate or reduce your PMI? Can you shorten your loan term? Can you obtain cash to pay off higher interest consumer debt? If you can combine multiple benefits, refinancing may make sense when just lowering your rate slightly wouldn't.
- **You may not need an appraisal!**
  Fannie and Freddie have both greatly expanded the use of Property Inspection Waivers (PIWs). If they have sufficient data on your property (including an appraisal done during the past 10 years), you may not need an appraisal, saving time, uncertainty, and money. And yes, PIWs are available for purchases and refinances, even cash out or investment property refinances! When originators run loans through Fannie or Freddie's underwriting engines, the results show whether an appraisal is required or not.
- **Has Covid-19 impacted you economically?**
  The CARES Act allows borrowers who've suffered economic hardship due to Covid-19 to postpone their mortgage payments with no impact to their credit. Folks who've done so, however, can't refinance until their missed payments have been made (or they work out a repayment schedule with their lender and make 3 payments under that agreement). If your income has been cut since the pandemic started, that will also impact
  your ability to refinance. Self-employed borrowers face extraordinary scrutiny now and must provide more detailed proof of income than previously required.
- **Don't get greedy!**
  When rates fall substantially, it's only human nature to hope they'll continue to do so. It's more likely than not, however, that rates will rise - they can't drop indefinitely! If you like your rate, lock it in while it's available. Unless you crave risk and are prepared to close at a higher rate, locking is the only way to guarantee you obtain the rate you've being quoted.

As we've seen, there's many areas to consider when refinancing. Perhaps the most important is finding a loan officer you're comfortable with, who can address your questions and provide reliable answers and service. Remember, if your loan doesn't close on time, or you don't get accurate information, your loan's rate and costs won't be your biggest concern. Mortgages are both a product (rate/costs) and a service (lender's ability to correctly structure, document, and process the loan).

It takes excellence in both areas to have a successful outcome!

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